Weekly Market Insights

July 6, 2020

Happy Fourth of July

We closed the second quarter of 2020 last week marking the best quarter for U.S. equity markets in twenty years.

The Dow closed up 3.24%, the S&P 500 4.02% and the NASDAQ 4.62%. There was both good news and bad news. The good news came in the form of economic indicators. They showed the beginnings of stronger growth in the U.S. economy. The bad news was reports of an acceleration in infections as municipalities started opening up from their earlier restrictive positions. There has been a flurry of stories about why the number of cases picked up. As we have written many times, we are not health professionals, so we will leave that discussion to them. Nevertheless, we are comforted by the signs of strength in economic activity. It remains clear that news about the progress or regress of the campaign against the pandemic is the primary variable in investors' minds.

The Economy

The economy, as we suggested in the last paragraph, is showing signs of recovery. The Federal Reserve continues to tell investors and businesses that they stand ready to do whatever is necessary to keep interest rates low and liquidity high. Both the Administration and the Legislature have let it be known that they are anxious to pass another stimulus bill. We are well aware that a lot can happen to temporarily derail the progress of a new stimulus bill, but we remain confident a bill will be passed. The government will continue to use both monetary and fiscal policy to keep the economy moving forward.

Along with the Fed keeping interest rates low, there has been an influx of foreign buyers entering the U.S. corporate bond market. This will help keep interest rates low and is a sign of confidence in the U.S. economy.

More encouraging news came with FedEx reporting that consumers showed levels of shopping that rivaled Christmas.

International

The Wall Street Journal reports that investors have been favoring European stocks. They are doing this on the perceived basis of valuation or relative value. Economic reality may be different.

Last week we reported that Christine Lagarde, President of the European Central Bank, made a speech that indicated a great deal of concern about the progress of the European Union. This week the June 3 issue of The Financial Times ran an interesting piece expressing the view that although some good news has come out of the E.U., they face a difficult and bumpy recovery. Readers know that we lean in that direction. They face a number of problems: Brexit, a lack of a powerful fiscal stimulus, and, like the U.S., difficulty in dealing with China.

The European Union is presently trying to conclude a trade and economic treaty with China. These negotiations have been in progress for six years. The issues are: a level playing field, State Owned Enterprises, subsidies, and technology transfers—sounds familiar! They may come to signing a treaty but one questions the odds.

Weekly Market Insights (cont'd)

China is facing enormous problems domestically, Hong Kong, of course, being the most public. Although China has made great progress in alleviating poverty, there remain huge pockets of extreme destitution in the country, and, of course, like the rest of the world, it is in a recession.

Where to invest

Although we don't think investors should abandon a global view, their equity allocation should be heavily weighted toward the U.S. markets.

Michael Olin Clark moclark@1919ic.com | Ryan Schutte rschutte@1919ic.com

Please click here for the Economic Release Calendar - July 2020.